Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

MAR - 5 1996

In the Matter of	)	DOCKET FILE COPY ORIGINAL
	)	
1995 Annual Access Tariffs	)	CC Docket No. 96-5
	)	
GTE Telephone Operating Companies	)	Transmittal No. 963
GTE System Telephone Companies	)	Transmittal No. 146

COMMENTS ON DIRECT CASE

U S WEST Communications, Inc. ("U S WEST"), through counsel and pursuant to the Federal Communications Commission's ("Commission") Order Designating Issues for Investigation in the above-captioned action,[1] hereby files these comments solely to respond to the Commission's inquiry concerning the appropriate exogenous cost adjustments for a price cap local exchange carrier's ("LEC") sale of exchanges. U S WEST believes that the Price Cap Index (or "PCI") adjustment and cost assignment methodologies it previously developed for the sale of its own exchanges are the most appropriate and most accurate accounting treatments. The Commission should adopt the U S WEST approaches as the primary methodologies for all price cap LEC exchange sales going-forward.

[1] In the Matter of 1995 Annual Access Tariffs, GTE Telephone Operating Companies, GTE System Telephone Companies, CC Docket No. 96-5, Transmittal Nos. 963 and 146, Order Designating Issues for Investigation, DA 96-54, rel. Jan. 23, 1996 ("Designation Order").

I. THE COMMISSION SHOULD USE THE U S WEST METHODOLOGY TO DETERMINE THE EXOGENOUS ADJUSTMENT OF PRICE CAP INDEXES REQUIRED BY THE SALE OF EXCHANGES

The Commission has specifically requested comment on the most appropriate methodology for calculating an amount for the exogenous adjustment associated with a price cap LEC's sale of exchanges.[2] This exogenous amount would then be used to adjust the LEC's PCIs up or down as applicable. U S WEST believes that it has developed a consistent and accurate methodology for such adjustments. As noted by the Commission, the U S WEST methodology is designed to calculate the increase or decrease in net revenue resulting from the sale of exchanges.

The first step in the U S WEST methodology is to calculate historical revenues for the exchanges being sold, and then calculate the capital and operating expenses associated with the same exchanges. If required by the specific circumstances, an allocator is used to assign a portion of study area costs to the exchanges being sold. Capital expense items are allocated based upon the ratio of Total Plant in Service ("TPIS") attributable to the exchanges sold to the TPIS in the total study area. Labor expenses are estimated based on the workforce requirements and labor rates of the exchanges being sold. Finally, other operating expenses are allocated through the development of a per line operating expense for the study area based upon the number of access lines in the exchanges being sold.

Total costs attributable to the exchanges being sold are then calculated by summing the total annual capital and operating expenses of the sold exchanges. To

[2] Id. ¶¶ 9, 12.

adjust the PCIs, U S WEST calculates the adjustment by subtracting the total costs attributable to the exchanges from the revenues generated by the operation of the exchanges.[3] This result is then applied as an exogenous cost change in the following year's annual access tariff filing.

U S WEST's methodology is the most appropriate as it adjusts the PCI so that it is equivalent to a PCI that would have evolved had the exchanges being sold not been included in its original revenue requirement entering price caps. And, while the Commission's Designation Order presupposes that all exogenous adjustments resulting from exchange sales will be "downward,"[4] U S WEST's methodology will produce an upward adjustment to PCIs should the revenues associated with sold exchanges exceed the total costs of operating the exchanges. It would be unreasonable for the Commission to restrict exogenous treatment for the sale of exchanges to only those which result in downward adjustments.

U S WEST believes that its method of determining the exogenous adjustment by taking the difference between actual booked revenue and actual eliminated expense is the Commission's best choice going-forward. The method is simple, straight-forward, verifiable, and understandable. The method is also objective and neutral in that it does not try to "game" the regulatory process to generate an artificial reward or penalty.

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[3] U S WEST used its prescribed/authorized rate-of-return under price caps to calculate the revenue requirement in the exogenous adjustment.

[4] Designation Order ¶ 12.

II. THE COMMISSION SHOULD ALSO CHOOSE THE U S WEST METHODOLOGY FOR ASSIGNING COSTS ATTRIBUTABLE TO THE SALE OF EXCHANGES

U S WEST believes that its basis for assigning costs most accurately reflects those costs associated with the exchanges being sold. The costs included are the same costs that U S WEST used in financial evaluations related to proposed exchange sales. The Commission proposes an alternative method for assigning costs in the Designation Order.[5] The Commission's approach, however, appears to be a cost-estimation approach which relies on study area-wide averaging of costs per dollar of investment or access line. While this methodology is not unreasonable, U S WEST's approach provides a more accurate cost assessment based upon the best information available. The Commission could adopt its approach as a fallback method to be used where a better process of cost identification is not available.

III. AN EXOGENOUS ADJUSTMENT RELATED TO THE SALE OR SWAP OF AN ENTIRE STUDY AREA SHOULD BE BASED ON THE REMOVAL OF ALL REVENUES AND EXPENSES FOR THE STUDY AREA AS SHOWN IN LAST YEAR'S ARMIS REPORTS

The Commission requests that parties comment on the appropriate methodology for exogenous adjustment if a LEC were to sell or swap an entire study area.[6] U S WEST believes that for a transaction which entails the sale or swap of an entire study area, the exogenous adjustment for the transaction should be based on the removal of all of the revenues and expenses for the study area as reported in public reports such as the last calendar year's ARMIS Report.

[5] Id. ¶¶ 13-16.

[6] Id. ¶ 17.

In the case of an entire study area transfer, the Commission should also require exogenous symmetry between the buyer and seller. Under this requirement, if a seller has a downward adjustment based upon the transaction, then the buyer would have an upward adjustment limited to an amount equal to the reverse sign amount of the seller's downward adjustment. The reverse would be true if a seller had an upward adjustment required by the transaction.

IV. CONCLUSION

Based upon the foregoing, the Commission should select the U S WEST methodologies for PCI adjustment and cost assignment related to a price cap LEC's sale of exchanges. U S WEST has demonstrated herein that its methodologies represent the most appropriate and most accurate accounting treatment for these transactions. The Commission should find accordingly.

Respectfully submitted,

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March 5, 1996

CERTIFICATE OF SERVICE

I, Kelseau Powe, Jr., do hereby certify that on this 5th day of March, 1996, I have caused a copy of the foregoing **COMMENTS ON DIRECT CASE** to be served via first-class U.S. Mail, postage prepaid, upon the persons listed on the attached service list.

Kelseau Powe, Jr.

***Via Hand-Delivery**

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